

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Hazel Park, Michigan</u>	County Oakland
Audit Date June 30, 2004	Opinion Date October 15, 2004	Date Accountant Report Submitted To State: December 16, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 350 South Main Street, Suite 200	City Ann Arbor	State MI	ZIP 48104
Accountant Signature 			

City of Hazel Park, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Hazel Park, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets (Deficit)	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Assets (Deficit)	14
Statement of Revenue, Expenses, and Changes in Fund Net Assets (Deficit)	15
Statement of Cash Flows	16
Fiduciary Funds:	
Statement of Net Assets	17
Statement of Changes in Net Assets	18
Notes to Financial Statements	19-43
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	44
Pension System Schedules of Funding Progress and Employer Contributions	45
Other Supplemental Information	
Nonmajor Governmental Funds:	
Combining Balance Sheet	46-47
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	48-49
Agency Funds - Combining Statement of Assets and Liabilities	50



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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Hazel Park, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hazel Park, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hazel Park, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hazel Park, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule and pension system schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Honorable Mayor and Members
of the City Council
City of Hazel Park, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hazel Park, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note I, the City changed its method of accounting for state-shared revenue.

Plante & Moran, PLLC

October 15, 2004

City of Hazel Park, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Hazel Park, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- Employer pension costs increased by \$463,000, or 60 percent, in 2004 when compared with 2003. The contributions totaled \$1,231,000 in 2004 and \$768,000 in 2003.
- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$296,000 this year.
- Race track breakage monies received decreased from \$693,000 in 2003 to \$607,000 in 2004, reflecting the decreasing trend of breakage monies revenue since the three Detroit casinos began operations in 1999.
- Health care costs increased at a lower than industry average rate of 2.7 percent due to a City-wide health insurance provider change.
- The City also received other union contract concessions, reduced the number of employees through attrition, and increased charges for services to offset the above-mentioned increased pension expenses and revenue shortfall.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date:

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 3,887,169	\$ 3,596,245	\$ 2,199,968	\$ 2,528,262	\$ 6,087,137	\$ 6,124,507
Noncurrent assets	<u>24,148,588</u>	<u>25,545,060</u>	<u>16,063,231</u>	<u>16,346,165</u>	<u>40,211,819</u>	<u>41,891,225</u>
Total assets	28,035,757	29,141,305	18,263,199	18,874,427	46,298,956	48,015,732
Liabilities						
Current liabilities	3,145,488	870,922	895,250	398,120	4,040,738	1,269,042
Long-term liabilities	<u>4,691,929</u>	<u>6,842,777</u>	<u>12,547,613</u>	<u>13,310,515</u>	<u>17,239,542</u>	<u>20,153,292</u>
Total liabilities	<u>7,837,417</u>	<u>7,713,699</u>	<u>13,442,863</u>	<u>13,708,635</u>	<u>21,280,280</u>	<u>21,422,334</u>
Net Assets (Deficit)						
Invested in capital assets -						
Net of related debt	20,366,948	21,126,563	2,435,869	3,029,920	22,802,817	24,156,483
Restricted	824,671	481,425	175,846	174,331	1,000,517	655,756
Unrestricted	<u>(993,279)</u>	<u>(180,382)</u>	<u>2,208,621</u>	<u>1,961,541</u>	<u>1,215,342</u>	<u>1,781,159</u>
Total net assets (deficit)	<u>\$ 20,198,340</u>	<u>\$ 21,427,606</u>	<u>\$ 4,820,336</u>	<u>\$ 5,165,792</u>	<u>\$ 25,018,676</u>	<u>\$ 26,593,398</u>

The City's combined net assets decreased approximately 6 percent from a year ago, decreasing from approximately \$26,593,000 to \$25,018,000. Analyzing the governmental activities separately from the business-type activities, the net assets related to governmental activities decreased by \$1,229,000. This is the result primarily of increased pension costs, lower state revenue sharing, limited property growth, lower interest rates on invested balances coupled with the continued greater than inflationary increases in general liability insurance, and other City expenditures.

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year:

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 3,631,793	\$ 3,239,636	\$ 4,566,513	\$ 4,622,350	\$ 8,198,306	\$ 7,861,986
Operating grants and contributions	1,520,287	1,343,546	-	-	1,520,287	1,343,546
General revenue:						
Property taxes	5,410,890	5,135,966	-	-	5,410,890	5,135,966
State-shared revenue	2,623,331	2,918,857	-	-	2,623,331	2,918,857
Race track breakage	606,735	692,760	-	-	606,735	692,760
Unrestricted investment earnings	23,570	44,685	9,772	19,756	33,342	64,441
Franchise fees	136,694	112,700	-	-	136,694	112,700
Transfers	(119,650)	(155,611)	119,650	155,611	-	-
Total revenue	13,833,650	13,332,539	4,695,935	4,797,717	18,529,585	18,130,256
Program Expenses						
General government	3,804,261	3,472,942	-	-	3,804,261	3,472,942
Public safety	6,778,884	6,289,906	-	-	6,778,884	6,289,906
Public works	3,453,359	3,497,696	-	-	3,453,359	3,497,696
Recreation and culture	366,679	449,941	-	-	366,679	449,941
Planning and economic development	495,532	514,360	-	-	495,532	514,360
Interest on long-term debt	164,201	227,828	-	-	164,201	227,828
Water and sewer	-	-	3,752,027	3,492,462	3,752,027	3,492,462
Municipal Ice Arena	-	-	1,289,364	1,355,194	1,289,364	1,355,194
Total program expenses	15,062,916	14,452,673	5,041,391	4,847,656	20,104,307	19,300,329
Change in Net Assets	\$ (1,229,266)	\$ (1,120,134)	\$ (345,456)	\$ (49,939)	\$ (1,574,722)	\$ (1,170,073)

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

Although the City received less State-shared revenue and race track breakage fees when compared to June 30, 2003, total governmental revenues increased due to increases in license and permit fees, fines and forfeitures, and property taxes.

Expenses increased when compared to June 30, 2003, due in part to large increases in pension costs incurred during the year. By monitoring the City's spending in other areas, including reductions in non-essential services, seasonal hiring, and curtailing capital expenditures, the City somewhat offset the large increases in pension expenses.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and Municipal Ice Arena Fund.

The City provides water to residents from the City of Detroit's water system. The City provides sewage treatment through the Oakland County Drain Commission. Water system usage was lower in 2004 than in 2003, due to the addition of three pressure-reducing valves placed in the water mains in 2003.

The Municipal Ice Arena houses two ice rinks that cater to local amateur hockey teams, figure skaters, and public skating. In 2004, the ice arena operations produced results consistent with prior year, which was a significant improvement over its losses in comparison to the prior three years. The pro shop and concession stand services were contracted out during 2003 and now are being professionally managed by third parties leasing the facilities, thus further reducing manpower and administrative costs.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City's major funds for 2004 include the General Fund, the Water and Sewer Fund, and the Municipal Ice Arena Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$6.4 million in 2004, a 10 percent increase when compared to 2003 and approximately 42 percent of total General Fund expenditures. These two services are fully supported through the General Fund, which relies on State-shared revenue and property taxes as its major source of funding.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The original budgeted General Fund expense amounts increased by approximately \$513,000 throughout the year. These expense increases were offset by budgeted revenue increases from state sources.

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

Capital asset purchases were curtailed by the City's administration throughout 2004. Capital asset purchases in 2004 included the purchase and installation of an emergency generator at City Hall. The generator purchase was financed with contributions from the Law Enforcement Fund and General Fund. Capital asset purchases will continue to be curtailed for the foreseeable future.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year calls for lower property tax rates offset by higher property valuations. Because of the impact of Proposal A, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

Another economic factor influencing future budget decisions is the continuing reduction of State-shared revenue. In 2003, State-shared revenue totaled \$2.8 million, or approximately 26 percent, of General Fund revenue. In 2004, State-shared revenue decreased to \$2.6 million, or 24 percent, of General Fund revenue. With significant budget deficits at the State level, the State legislators are discussing even more cuts in State-shared revenue. Future cuts would have a significant negative impact on the operation of the City.

In the past few years, certain one-time negative economic events and the inability of the Municipal Ice Arena to operate profitably created constraints in the City's ability to fund services provided to residents with matching revenues, thus reducing the City's financial reserves. City management, along with City Council representatives, continue to monitor the current financial situation and have implemented strategies to maintain the current financial levels until positive changes in the funding provided to municipalities throughout the state are implemented.

City management continues to maintain a heightened level of awareness of its overall financial position and is proactively making changes in its operations and procedures to improve its productivity, control costs, and identify alternative revenue enhancement sources.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

City of Hazel Park, Michigan

Statement of Net Assets (Deficit) June 30, 2004

	Primary Government			Component
	Governmental	Business-type		Unit
	Activities	Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 2,172,551	\$ 408,313	\$ 2,580,864	\$ 281,478
Receivables (Note 4)	1,689,252	886,841	2,576,093	198,670
Internal balances	(218,918)	218,918	-	-
Due from component unit	-	338,661	338,661	-
Inventories	4,436	39,524	43,960	-
Prepaid costs and other assets	239,848	307,711	547,559	-
Long-term receivable - Pension Fund	250,664	500,000	750,664	-
Restricted assets (Notes 3 and 8)	-	175,846	175,846	-
Capital assets - Net (Note 5):				
Assets not being depreciated	1,194,004	1,191,033	2,385,037	154,766
Assets being depreciated	22,703,920	14,196,352	36,900,272	155,385
Total assets	28,035,757	18,263,199	46,298,956	790,299
Liabilities				
Accounts payable	250,141	327,396	577,537	913
Accrued and other liabilities	619,527	146,202	765,729	233,070
Due to other governmental units	1,231,225	-	1,231,225	338,661
Deferred revenue (Note 4)	57,333	-	57,333	-
Noncurrent liabilities (Note 7):				
Due within one year	987,262	421,652	1,408,914	232,816
Due in more than one year	4,691,929	12,547,613	17,239,542	4,949,637
Total liabilities	7,837,417	13,442,863	21,280,280	5,755,097
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	20,366,948	2,435,869	22,802,817	237,698
Restricted:				
Construction code fees	195,205	-	195,205	-
Highways and streets	45,806	-	45,806	-
Garbage and rubbish collection	196,094	-	196,094	-
Drug law enforcement	387,566	-	387,566	-
Revenue bond	-	175,846	175,846	-
Unrestricted	(993,279)	2,208,621	1,215,342	(5,202,496)
Total net assets (deficit)	\$ 20,198,340	\$ 4,820,336	\$ 25,018,676	(4,964,798)

City of Hazel Park, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 3,804,261	\$ 2,083,211	\$ 13,615	\$ -
Public safety	6,778,884	391,933	89,562	-
Public works	3,453,359	677,663	1,133,975	-
Recreation and culture	366,679	151,054	34,293	-
Community and economic development	495,532	327,932	248,842	-
Interest on long-term debt	164,201	-	-	-
Total governmental activities	15,062,916	3,631,793	1,520,287	-
Business-type activities:				
Water and sewer	3,752,027	3,396,799	-	-
Municipal Ice Arena	1,289,364	1,169,714	-	-
Total business-type activities	5,041,391	4,566,513	-	-
Total primary government	<u>\$ 20,104,307</u>	<u>\$ 8,198,306</u>	<u>\$ 1,520,287</u>	<u>\$ -</u>
Component unit - Downtown Development Authority				
	<u>\$ 433,888</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Race track breakage				
Unrestricted investment earnings				
Franchise fees				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year				
Net Assets (Deficit) - End of year				

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,707,435)	\$ -	\$ (1,707,435)	\$ -
(6,297,389)	-	(6,297,389)	-
(1,641,721)	-	(1,641,721)	-
(181,332)	-	(181,332)	-
81,242	-	81,242	-
(164,201)	-	(164,201)	-
(9,910,836)	-	(9,910,836)	-
-	(355,228)	(355,228)	-
-	(119,650)	(119,650)	-
-	(474,878)	(474,878)	-
(9,910,836)	(474,878)	(10,385,714)	-
-	-	-	(433,888)
5,410,890	-	5,410,890	635,677
2,623,331	-	2,623,331	-
606,735	-	606,735	-
23,570	9,772	33,342	4,113
136,694	-	136,694	-
(119,650)	119,650	-	-
8,681,570	129,422	8,810,992	639,790
(1,229,266)	(345,456)	(1,574,722)	205,902
21,427,606	5,165,792	26,593,398	(5,170,700)
\$ 20,198,340	\$ 4,820,336	\$ 25,018,676	\$ (4,964,798)

City of Hazel Park, Michigan

Governmental Funds Balance Sheet June 30, 2004

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 1,339,453	\$ 678,106	\$ 2,017,559
Receivables (Note 4)	221,823	110,749	332,572
Due from other governmental units (Note 4)	1,022,089	334,591	1,356,680
Due from other funds (Note 6)	44,730	-	44,730
Prepaid costs and other assets	224,840	-	224,840
Inventory	4,436	-	4,436
Long-term receivable - Pension Fund	250,664	-	250,664
Total assets	\$ 3,108,035	\$ 1,123,446	\$ 4,231,481
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 165,769	\$ 84,372	\$ 250,141
Accrued and other liabilities	546,676	46,467	593,143
Due to other funds	-	263,648	263,648
Due to other governmental units	1,231,225	-	1,231,225
Deferred revenue (Note 4)	-	57,333	57,333
Total liabilities	1,943,670	451,820	2,395,490
Fund Balances			
Reserved for:			
Long-term receivable from Pension Fund	250,664	-	250,664
Construction code fees (Note 2)	195,205	-	195,205
Inventory	4,436	-	4,436
Unreserved - Undesignated	714,060	-	714,060
Unreserved - Reported in Special Revenue Funds - Undesignated	-	671,626	671,626
Total fund balances	1,164,365	671,626	1,835,991
Total liabilities and fund balances	\$ 3,108,035	\$ 1,123,446	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	23,897,924
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(5,509,191)
Accrued interest on long-term liabilities is not due and payable in the current period and is not reported in the funds	(26,384)
Net assets of governmental activities	\$ 20,198,340

City of Hazel Park, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 4,739,015	\$ 671,875	\$ 5,410,890
Licenses and permits	623,576	-	623,576
Federal grants	13,615	265,613	279,228
State-shared revenues and grants	2,657,624	1,206,766	3,864,390
Race track breakage	527,859	78,876	606,735
Charges for services	656,276	448,986	1,105,262
Fines and forfeitures	1,521,132	-	1,521,132
Interest and rentals	16,988	6,582	23,570
Other	441,879	186,638	628,517
Total revenue	11,197,964	2,865,336	14,063,300
Expenditures			
Current:			
General government	3,703,818	6,432	3,710,250
Public safety	6,388,551	102,589	6,491,140
Public works	505,050	1,969,106	2,474,156
Community and economic development	406,113	-	406,113
Recreation and culture	396,746	-	396,746
Capital outlay	-	46,375	46,375
Debt service	-	648,270	648,270
Total expenditures	11,400,278	2,772,772	14,173,050
Excess of Revenue Over (Under) Expenditures	(202,314)	92,564	(109,750)
Other Financing Sources (Uses)			
Transfers in	119,876	352,335	472,211
Transfers out	(319,991)	(271,870)	(591,861)
Total other financing sources (uses)	(200,115)	80,465	(119,650)
Net Change in Fund Balances	(402,429)	173,029	(229,400)
Fund Balances - Beginning of year	1,566,794	498,597	2,065,391
Fund Balances - End of year	<u>\$ 1,164,365</u>	<u>\$ 671,626</u>	<u>\$ 1,835,991</u>

City of Hazel Park, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ (229,400)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	31,109
Depreciation on capital assets reported as part of governmental activities	(1,436,233)
Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	529,589
Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(133,615)
Decrease in interest expense is recorded when incurred in the statement of activities	<u>9,284</u>

Change in Net Assets of Governmental Activities	<u>\$ (1,229,266)</u>
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City of Hazel Park, Michigan

Proprietary Funds Statement of Net Assets (Deficit) June 30, 2004

	Enterprise Funds			Governmental Activities
	Water and Sewer	Municipal Ice Arena	Total Enterprise Funds	Internal Service Fund
Assets				
Current assets:				
Cash and investments (Note 3)	\$ 360,760	\$ 47,553	\$ 408,313	\$ 154,992
Receivables (Note 4)	834,271	52,570	886,841	-
Due from other funds	218,918	-	218,918	-
Due from component unit	338,661	-	338,661	-
Inventories	39,524	-	39,524	-
Prepaid costs and other assets	146,302	161,409	307,711	15,008
Total current assets	1,938,436	261,532	2,199,968	170,000
Noncurrent assets:				
Long-term receivables	500,000	-	500,000	-
Restricted assets (Notes 3 and 8)	175,846	-	175,846	-
Capital assets - Net (Note 5)	7,061,668	8,325,717	15,387,385	-
Total noncurrent assets	7,737,514	8,325,717	16,063,231	-
Total assets	9,675,950	8,587,249	18,263,199	170,000
Liabilities				
Current liabilities:				
Accounts payable	324,422	2,974	327,396	-
Accrued and other liabilities	38,095	108,107	146,202	-
Current portion of long-term debt (Note 7)	221,652	200,000	421,652	170,000
Total current liabilities	584,169	311,081	895,250	170,000
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	3,847,613	8,700,000	12,547,613	-
Total liabilities	4,431,782	9,011,081	13,442,863	170,000
Net Assets (Deficit)				
Investment in capital assets - Net of related debt	3,010,152	(574,283)	2,435,869	-
Restricted - Revenue bond	175,846	-	175,846	-
Unrestricted	2,058,170	150,451	2,208,621	-
Total net assets (deficit)	<u>\$ 5,244,168</u>	<u>\$ (423,832)</u>	<u>\$ 4,820,336</u>	<u>\$ -</u>

City of Hazel Park, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2004

	Enterprise Funds			Governmental Activities
	Water and Sewer	Municipal Ice Arena	Total Enterprise Funds	Internal Service Fund
Operating Revenue				
Sale of water	\$ 1,456,603	\$ -	\$ 1,456,603	\$ -
Sewage disposal charges	1,758,365	-	1,758,365	-
Charges for services	175,078	-	175,078	-
City contributions	-	-	-	2,017,141
Rental income	-	1,108,452	1,108,452	-
Advertising	-	6,025	6,025	-
Concessions	-	9,812	9,812	-
Pro shop	-	20,379	20,379	-
Other charges for services	6,753	25,046	31,799	-
Total operating revenue	3,396,799	1,169,714	4,566,513	2,017,141
Operating Expenses				
Cost of water produced/purchased	515,722	-	515,722	-
Cost of sewage treatment	1,111,226	-	1,111,226	-
Operation and maintenance	1,058,584	631,409	1,689,993	-
General and administrative	458,885	60,715	519,600	-
Depreciation and amortization	433,919	153,790	587,709	-
Refunds and other	32,862	-	32,862	-
Benefit payments and claims administration	-	-	-	2,017,141
Total operating expenses	3,611,198	845,914	4,457,112	2,017,141
Operating Income (Loss)	(214,399)	323,800	109,401	-
Nonoperating Income (Expense)				
Interest income	9,772	-	9,772	-
Interest expense	(140,829)	(443,450)	(584,279)	-
Loss - Before transfers	(345,456)	(119,650)	(465,106)	-
Transfers from Other Funds	-	119,650	119,650	-
Change in Net Assets	(345,456)	-	(345,456)	-
Net Assets (Deficit) - Beginning of year	5,589,624	(423,832)	5,165,792	-
Net Assets (Deficit) - End of year	<u>\$ 5,244,168</u>	<u>\$ (423,832)</u>	<u>\$ 4,820,336</u>	<u>\$ -</u>

City of Hazel Park, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Enterprise Funds		Governmental Activities
	Water and Sewer	Municipal Ice Arena	Internal Service Fund
Cash Flows from Operating Activities			
Receipts from customers	\$ 3,376,105	\$ 1,134,729	\$ -
Contributions received	-	-	2,017,141
Payments to suppliers	(2,497,131)	(341,414)	-
Payments to employees	(611,709)	(349,103)	-
Claims paid	-	-	(2,032,149)
Net cash provided by (used in) operating activities	267,265	444,212	(15,008)
Cash Flows from Noncapital and Related Financing Activities -			
Transfers from (to) other funds	(234,895)	119,650	-
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(274,999)	-	-
Principal and interest paid on capital debt	(267,481)	(647,125)	-
Net cash used in capital and related financing activities	(542,480)	(647,125)	-
Cash Flows from Investing Activities - Interest received on investments	9,772	-	-
Net Decrease in Cash and Cash Equivalents	(500,338)	(83,263)	(15,008)
Cash and Cash Equivalents - Beginning of year	1,036,944	130,816	170,000
Cash and Cash Equivalents - End of year	<u>\$ 536,606</u>	<u>\$ 47,553</u>	<u>\$ 154,992</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 360,760	\$ 47,553	\$ 154,992
Restricted assets	175,846	-	-
Total cash and cash equivalents	<u>\$ 536,606</u>	<u>\$ 47,553</u>	<u>\$ 154,992</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ (214,399)	\$ 323,800	\$ -
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	433,919	153,791	-
Changes in assets and liabilities:			
Receivables	(20,693)	(34,985)	-
Inventory	-	8,567	-
Other assets	(3,078)	-	(15,008)
Accounts payable	84,723	(745)	-
Accrued and other liabilities	(13,207)	(6,216)	-
Net cash provided by (used in) operating activities	<u>\$ 267,265</u>	<u>\$ 444,212</u>	<u>\$ (15,008)</u>

City of Hazel Park, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

	Pension Trust Fund	Agency Funds
Assets		
Cash (Note 3)	\$ 94,992	\$ 119,809
Investments (Note 3):		
Corporate bonds	5,900,006	-
U.S. government securities	7,410,477	-
Common and preferred stock	22,681,317	-
Mutual funds	919,032	-
Total investments	36,910,832	119,809
Receivables:		
Accrued interest	52,964	-
Due from other governmental units	750,000	15,252
Due from other funds	1,231,225	-
Total assets	39,040,013	<u><u>\$ 254,870</u></u>
Liabilities		
Accrued and other liabilities	19,508	\$ 122,521
Due to other governmental units	750,664	12,540
Total liabilities	770,172	<u><u>\$ 135,061</u></u>
Net Assets - Held in trust for pension benefits	<u><u>\$ 38,269,841</u></u>	

City of Hazel Park, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Pension Trust Fund
Additions	
Investment income:	
Interest and dividends	\$ 1,077,103
Net appreciation in fair value of investments	3,123,684
Less investment expenses	<u>(266,428)</u>
Net investment income	3,934,359
Contributions:	
Employer	1,231,225
Employee	<u>525,004</u>
Total contributions	<u>1,756,229</u>
Total additions	5,690,588
Deductions	
Benefit payments	2,934,430
Refunds of contributions	20,299
Administrative expenses	<u>34,757</u>
Total deductions	<u>2,989,486</u>
Net Increase in Net Assets Held for Pension Benefits	2,701,102
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>35,568,739</u>
End of year	<u><u>\$ 38,269,841</u></u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Hazel Park, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Hazel Park, Michigan:

Reporting Entity

The City of Hazel Park, Michigan is governed by an elected five-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units

The Hazel Park Building Authority is governed by a five-member board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The activity of the Hazel Park Building Authority is reported within the General Fund and Municipal Ice Arena Enterprise Fund.

Discretely Presented Component Unit - The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body is approved by the City Council. In addition, the DDA's budget is subject to approval by the City.

Jointly Governed Organization - Jointly governed organizations are discussed in Note 12.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 63 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, State-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major Enterprise Funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Municipal Ice Arena Fund - The Municipal Ice Arena Fund accounts for the operations of Viking Ice Arena.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for risk management services provided to other departments of the City on a cost reimbursement basis.

Pension Trust Fund - The Pension Trust Fund accounts for the activities of the City's employees' retirement system, which accumulates resources for pension benefit payments to qualified City employees.

Note 1 - Summary of Significant Accounting Policies (Continued)

Agency Funds - Agency Funds account for assets held by the City for individuals, organizations, other governments, or other funds. They are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Funds.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on August 31, at which time penalties and interest are assessed.

The City's 2003 tax is levied and collectible on July 1, 2003 and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the City totaled \$257.6 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 17.1315 mills for operating purposes and 2.5695 mills for garbage and rubbish. This resulted in approximately \$4.369 million for operating, and approximately \$657,000 for garbage and rubbish. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Restricted assets at June 30, 2004 consist of cash restricted for revenue bond reserve requirements of \$175,846 in the Water and Sewer Fund.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Water and sewer distribution systems	30-50 years
Buildings and building improvements	10-50 years
Vehicles	6 years
Machinery and equipment	5-20 years
Infrastructure	20-50 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation pay is accrued when earned, and sick pay is accrued when vested (or likely to vest). A liability is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets (deficit). Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Accounting and Reporting Changes

Revenue Recognition - The City changed its method of accounting for state-shared revenue. Beginning in the fiscal year ended June 30, 2004, state-shared revenue collected within 63 days of the end of the current fiscal period is recognized as revenue in the current period. Previously, the City accrued state-shared revenue collected within 60 days of the end of the current fiscal period.

Note 2 - Stewardship, Compliance, and Accountability

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan* dated April 1982:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. Budgeted expenditures cannot exceed budgeted revenues and fund balance.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget before being incurred.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations. A comparison of actual results of operations to the General Fund budget adopted by the City Council is included as required supplemental information. This comparison includes budget expenditure overruns. A comparison of actual results of operations, including budget overruns, to the nonmajor fund budgets as adopted by the City Council, is available at the Clerk's office for inspection.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The City follows these procedures in establishing the budget reflected in the financial statements:

1. The city manager, on or before 60 days prior to the commencement of the fiscal and budgetary year (July 1), shall prepare and submit to the Council a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least 10 days in advance thereof by the clerk.
3. The Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

The annual budget is prepared by City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles, with the following exceptions:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Expenditures financed by installment debt are reported net of the debt proceeds.
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.

The budget statements are presented on the same basis of accounting used in preparing the adopted budget.

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Hazel Park incurred expenditures that were in excess of the amounts budgeted in the General Fund, as follows:

	Amended Budget	Actual	Variance
City clerk	\$ 224,100	\$ 225,699	\$ (1,599)
Insurance claims	1,374,100	1,413,481	(39,381)
Police	4,174,000	4,228,377	(54,377)
Animal control	77,300	81,704	(4,404)
Recreation and culture	258,000	264,518	(6,518)
Planning, building, and community development	393,900	401,335	(7,435)
Transfers to other funds	196,600	319,991	(123,391)

These unfavorable expenditure variances in the General Fund were caused by unanticipated expenditures that became necessary during the year. The unfavorable variance in operating transfers was a result of the General Fund transferring monies in excess of those budgeted to the Capital Improvement and Replacement Fund.

Fund Deficits - The City has accumulated fund deficits in the following individual funds:

The Downtown Development Authority has an accumulated deficit of \$162,533 at June 30, 2004 on a modified accrual basis that will be eliminated with future property tax capture.

The Municipal Ice Arena Fund had an accumulated deficit of \$423,832. The City plans to eliminate the existing deficits through rate increases and interfund transfers.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2003	\$ 22,280
Revenue	303,380
Related expenses:	
Direct costs	93,934
Estimated indirect costs	<u>36,521</u>
Total construction code expenses	<u>130,455</u>
Cumulative surplus - June 30, 2004	<u><u>\$ 195,205</u></u>

The current year revenue included a significant project at Hazel Park raceway; the related costs are expected to be incurred during the next two fiscal years.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and bank investment pools and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

The City's Employees' Retirement System is also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain State and local government obligations, and certain other specified investment vehicles.

The City's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 2,172,551	\$ 408,313	\$ 37,125,633	\$ 39,706,497	\$ 281,478
Restricted assets	-	175,846	-	175,846	-
Total	<u>\$ 2,172,551</u>	<u>\$ 584,159</u>	<u>\$ 37,125,633</u>	<u>\$ 39,882,343</u>	<u>\$ 281,478</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,122,754	\$ 281,478
Investments in securities, mutual funds, and similar vehicles	38,750,619	-
Petty cash or cash on hand	<u>8,970</u>	<u>-</u>
Total	<u>\$ 39,882,343</u>	<u>\$ 281,478</u>

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

The bank balance of the primary government's deposits is \$1,251,897, of which approximately \$300,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The component units' deposits had a bank balance of \$281,478, of which approximately \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Corporate bonds	\$ -	\$ -	\$ 5,900,006	\$ 5,900,006
U.S. government securities	-	-	7,410,477	7,410,477
Common and preferred stock	-	-	22,681,317	22,681,317
Subtotal	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,991,800</u>	35,991,800
Investments not subject to categorization - Mutual funds				919,032
Total Pension Trust - Employees' Retirement System				36,910,832
Bank investment pool funds				721,623
Interlocal agreement investment pool funds				582,849
Money market funds				535,315
Total primary government				<u>\$ 38,750,619</u>

Note 3 - Deposits and Investments (Continued)

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools, interlocal agreement investment pool, and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Included in the City's Employees' Retirement System investments at the balance sheet date are the following:

- Approximately \$1,131,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$2,242,000 of collateralized mortgage obligations (or obligations of the Federal National Mortgage Association). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$620,000 of securities issued by the Federal Home Loan Mortgage Corporation (FHLMC). The FHLMC investments are backed by the applicable government agency. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

- Asset-backed securities of approximately \$1,783,000. These securities are backed by credit card receivables or mortgages. These obligations typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller recourse, insurance company guarantees and/or senior subordinated structures. These securities are generally considered to offer modest credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayments for these "pay through" securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the City's individual major funds and the nonmajor, Internal Service, and fiduciary funds in the aggregate, are as follows:

	General Fund	Nonmajor and Other Funds	Business-type Activities	Total	Component Units
Receivables:					
Taxes	\$ 26,579	\$ -	\$ -	\$ 26,579	\$ -
Special assessments	-	-	-	-	126,592
Interest and other	195,244	110,749	-	305,993	-
Receivables from operations	-	-	872,203	872,203	-
Due from other governmental units	1,022,089	334,591	14,638	1,371,318	72,078
Total receivables	<u>\$ 1,243,912</u>	<u>\$ 445,340</u>	<u>\$ 886,841</u>	<u>\$ 2,576,093</u>	<u>\$ 198,670</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue, of which the entire amount is unearned, are as follows:

Cable equipment	\$ 5,000
Police training	20,556
Local Law Enforcement Block Grant	6,244
9-11 Police Training Fund	<u>25,533</u>
Total	<u>\$ 57,333</u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental, business-type, and component unit activities was as follows:

Governmental Activities	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated -				
Land	\$ 1,194,004	\$ -	\$ -	\$ 1,194,004
Capital assets being depreciated:				
Land improvements	906,100	-	-	906,100
Buildings and improvements	2,115,387	-	-	2,115,387
Machinery and equipment	5,106,331	31,109	15,679	5,121,761
Infrastructure:				
Roadways	35,208,766	-	-	35,208,766
Sidewalks	8,559,555	-	-	8,559,555
Street lights	352,800	-	-	352,800
Subtotal	52,248,939	31,109	15,679	52,264,369
Accumulated depreciation:				
Land improvements	737,483	44,265	-	781,748
Buildings and improvements	1,549,185	43,613	-	1,592,798
Machinery and equipment	3,494,255	377,107	15,679	3,855,683
Infrastructure:				
Roadways	19,298,913	782,417	-	20,081,330
Sidewalks	2,945,399	171,191	-	3,116,590
Street lights	114,660	17,640	-	132,300
Subtotal	28,139,895	1,436,233	15,679	29,560,449
Net capital assets being depreciated	24,109,044	(1,405,124)	-	22,703,920
Net capital assets	\$ 25,303,048	\$ (1,405,124)	\$ -	\$ 23,897,924

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated -				
Land	\$ 1,191,033	\$ -	\$ -	\$ 1,191,033
Capital assets being depreciated:				
Land improvements	306,694	-	-	306,694
Water and sewer distribution systems	12,663,824	274,999	-	12,938,823
Buildings and building improvements	8,093,333	-	-	8,093,333
Vehicles	616,442	-	-	616,442
Machinery and equipment	722,833	-	-	722,833
Subtotal	22,403,126	274,999	-	22,678,125
Accumulated depreciation:				
Land improvements	14,748	6,134	-	20,882
Water and sewer distribution systems	5,939,683	398,674	-	6,338,357
Buildings and building improvements	981,951	94,042	-	1,075,993
Vehicles	452,443	20,500	-	472,943
Machinery and equipment	517,523	56,075	-	573,598
Subtotal	7,906,348	575,425	-	8,481,773
Net capital assets being depreciated	14,496,778	(300,426)	-	14,196,352
Net capital assets	<u>\$ 15,687,811</u>	<u>\$ (300,426)</u>	<u>\$ -</u>	<u>\$ 15,387,385</u>
Component Unit				
Capital assets not being depreciated -				
Land	\$ 154,766	\$ -	\$ -	\$ 154,766
Capital assets being depreciated -				
Land improvements	230,200	-	-	230,200
Subtotal	384,966	-	-	384,966
Accumulated depreciation - Land improvements	63,305	11,510	-	74,815
Net capital assets	<u>\$ 321,661</u>	<u>\$ (11,510)</u>	<u>\$ -</u>	<u>\$ 310,151</u>

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 123,598
Public safety	190,774
Public works	1,067,257
Economic development	2,880
Recreation and culture	<u>51,724</u>

Total governmental activities	<u>\$ 1,436,233</u>
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Business-type activities:

Water and Sewer	\$ 429,705
Municipal Ice Arena	<u>145,720</u>

Total business-type activities	<u>\$ 575,425</u>
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Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor governmental funds:	
	Auto Theft Prevention Fund	\$ 2,144
	Community Development	
	Block Grant Fund	<u>42,586</u>
Total General Fund		<u>\$ 44,730</u>
Water and Sewer Fund	Nonmajor governmental funds:	
	Major Street Fund	\$ 81,351
	Local Street Fund	57,226
	Capital Improvement and	
	Replacement Fund	<u>80,341</u>
Total Water and Sewer Fund		<u>\$ 218,918</u>

Interfund balances are due to the time lag between when interfund services are provided or expenses are paid on behalf of another fund and when the reimbursement is received.

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds:	
	Local Law Enforcement Block	
	Grant Fund	(2) \$ 3,977
	Auto Theft Prevention Fund	(2) 26,889
	Capital Improvement and	
	Replacement Fund	(1) 169,475
	Municipal Ice Arena Fund	(3) <u>119,650</u>
	Total General Fund	319,991
Nonmajor governmental funds	Nonmajor governmental funds:	
	Local Streets Fund	(4) 125,894
	Capital Improvement and	
	Replacement Fund	(1) 26,100
	General Fund	(3) <u>119,876</u>
	Total nonmajor governmental funds	<u>271,870</u>
	Total funds	<u>\$ 591,861</u>

(1) Transfer for reimbursement of expenses

(2) Transfer for City match of grants

(3) Transfer of discretionary funds to be used for the benefit of the community

(4) Transfer of Act 51 monies to fund local street expenditures

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from acquired or constructed assets to pay debt service.

The Water and Sewer Fund revenue bonds are payable solely from the net revenues of the system and are not a general obligation of the City. The City has agreed to fix and maintain the system, and to provide rates for service provided by the system sufficient to provide for payment of necessary expenses of the system, including the principal and interest on the bonds, when due.

The accumulated compensated absences represent the estimated liability to be paid to governmental fund-type employees under the City's sick and vacation pay policy. Under the City's policy, employees earn sick and vacation time based on time of service with the City.

Long-term obligation activity can be summarized as follows:

	Original Amount	Interest Rate Range	Maturity Payment Range	Principal Maturity Range	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities									
Michigan transportation revenue bonds:									
MI Transportation Bonds Series 1997A	\$ 475,000	5.20%-5.80%	2012	\$30,000-\$50,000	\$ 325,000	\$ -	\$ 25,000	\$ 300,000	\$ 30,000
MI Transportation Bonds Series 1999	3,700,000	4.00%-4.63%	2017	\$150,000-\$300,000	3,100,000	-	150,000	2,950,000	150,000
Contractual obligations:									
GMC truck	142,303	4.46%	2004	N/A	33,286	-	33,286	-	-
Fire apparatus 1997	560,000	5.03%	2004	\$95,000	185,000	-	90,000	95,000	95,000
Ambulance	133,651	4.02%	2005	\$27,761	54,450	-	26,689	27,761	27,761
Truck/Plow and lawn mowers	187,192	3.86%	2006	\$37,385-\$39,025	112,403	-	35,993	76,410	37,385
Stump grinder and hustler mower	32,177	2.25%	2004	N/A	12,231	-	12,231	-	-
Police interceptors	132,000	2.25%	2005	\$33,809	88,966	-	55,157	33,809	33,809
Civics computer system	83,320	3.25%	2005	\$24,796	54,058	-	29,262	24,796	24,796
Roof repairs	54,151	3.43%	2005	\$4,689-\$18,511	41,091	-	17,891	23,200	18,511
Compensated absences	N/A	N/A	N/A	N/A	1,094,600	133,615	-	1,228,215	350,000
Long-term pension payable	N/A	N/A	N/A	N/A	804,080	-	54,080	750,000	50,000
Self-insurance claims	N/A	N/A	N/A	N/A	170,000	-	-	170,000	170,000
Total governmental activities					\$ 6,075,165	\$ 133,615	\$ 529,589	\$ 5,679,191	\$ 987,262

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

	Original Amount	Interest Rate Range	Maturity Payment Range	Principal Maturity Range	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Business-type Activities									
Water and Sewer:									
Water Supply and Sewage Disposal System -									
Revenue Bonds - Series 1999	\$ 1,640,000	4.00%-4.90%	2017	\$75,000-\$125,000	\$ 1,500,000	\$ -	\$ 75,000	\$ 1,425,000	\$ 75,000
Water Utility Fund Auxiliary Engine	205,000	2.95%	2007	\$32,317-\$42,450	155,871	-	39,912	115,959	41,192
County Contractual Agreements (Note 14):									
Drain Bonds Series 2000A	391,341	2.50%	2022	\$16,087-\$24,514	376,020	-	15,649	360,371	16,087
Drain Bonds Series 2000B	143,798	4.75%-5.38%	2022	\$4,925-\$10,835	139,420	-	4,377	135,043	4,925
Drain Bonds Series 2001C	1,799,117	2.50%	2024	\$70,476-\$112,609	1,799,117	-	-	1,799,117	70,476
Drain Bonds Series 2001E	216,026	4.00%-5.25%	2024	\$7,660-\$15,760	216,026	-	-	216,026	7,660
Ice Arena - Building Authority Ice Arena									
Bonds 1999	9,700,000	4.35%-7.35%	2024	\$200,000-\$600,000	9,100,000	-	200,000	8,900,000	200,000
Compensated absences	N/A	N/A	N/A	N/A	24,061	-	6,312	17,749	6,312
Total business-type activities					\$ 13,310,515	\$ -	\$ 341,250	\$ 12,969,265	\$ 421,652
Component Unit Activities - General									
obligation bonds									
General Obligation 1994	\$ 895,000	5.50%-5.80%	2013	\$45,000-\$95,000	\$ 750,000	\$ -	\$ 40,000	\$ 710,000	\$ 45,000
General Obligation 1994	1,800,000	6.50%-7.10%	2013	\$110,000-\$150,000	1,520,000	-	95,000	1,425,000	110,000
General Obligation 1997	2,175,000	4.70%-5.50%	2020	\$45,000-\$175,000	2,065,000	-	40,000	2,025,000	45,000
Limited Tax Development Bonds 1999	975,000	4.20%-5.95%	2019	\$25,000-\$100,000	975,000	-	25,000	950,000	25,000
Shamman Project	120,000	6.00%	2011	\$1,499-\$12,158	82,077	-	9,624	72,453	7,816
Total component unit activities					\$ 5,392,077	\$ -	\$ 209,624	\$ 5,182,453	\$ 232,816

Annual debt service requirements to maturity for the above governmental, business-type and component unit bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 467,262	\$ 154,145	\$ 621,407	\$ 415,340	\$ 570,531	\$ 985,871	\$ 232,816	\$ 291,692	\$ 524,508
2006	273,714	139,936	413,650	518,787	548,522	1,067,309	264,013	276,197	540,210
2007	235,000	130,767	365,767	536,389	519,437	1,055,826	284,569	260,079	544,648
2008	285,000	122,877	407,877	506,810	489,985	996,795	320,160	242,141	562,301
2009	285,000	112,853	397,853	509,655	469,863	979,518	335,786	222,529	558,315
2010-2014	1,585,000	399,381	1,984,381	3,094,998	2,005,244	5,100,242	2,055,109	772,927	2,828,036
2015-2019	1,150,000	83,250	1,233,250	3,657,987	1,275,764	4,933,751	1,340,000	287,524	1,627,524
2020-2024	-	-	-	3,711,550	482,647	4,194,197	350,000	19,250	369,250
Total	\$ 4,280,976	\$ 1,143,209	\$ 5,424,185	\$ 12,951,516	\$ 6,361,993	\$ 19,313,509	\$ 5,182,453	\$ 2,372,339	\$ 7,554,792

Note 8 - Restricted Assets

Restricted assets at June 30, 2004 consist of cash and investments restricted for revenue bond reserve requirements of \$175,846 in the Water and Sewer Fund.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for property loss, torts, errors and omissions, and employee injuries (workers' compensation) claims and is uninsured for medical benefit claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to retention limits, the ultimate liability for those claims remains with the City. The City has elected to participate in the Authority's stop-loss program, which limits the paid losses to \$150,000 per occurrence and \$259,000 in the aggregate for the most recent plan year.

The City estimates the liability for medical benefit claims and from its period of being self-insured for workers' compensation claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	2004	2003
Unpaid claims - Beginning of year	\$ 170,000	\$ 140,000
Incurred claims - Including claims incurred but not reported	2,017,141	1,993,270
Claim payments	(2,017,141)	(1,963,270)
Unpaid claims - End of year	<u>\$ 170,000</u>	<u>\$ 170,000</u>

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The Employees' Pension Plan is a single-employer defined benefit pension plan that is administered by the City's Employees' Retirement System. This plan, which covers all employees of the City, provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 140 retirees and beneficiaries currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and 119 current active employees. The plan does not issue a separate financial report.

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent to 10.35 percent of gross wages for general, police, and fire employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Costs - For the year ended June 30, 2004, the City was required to make a contribution of 18.51 percent of covered payroll to the plan. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.50 percent per year compounded annually, (b) projected salary increases of 4.25 percent to 8.05 percent per year compounded annually, of which 4.25 percent is attributable to inflation, and (c) no postretirement benefit increases. For actuarial purposes, asset values are determined using techniques that smooth the effects of short-term market volatility over a four-year period. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2003 was 30 years.

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2004

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Three-year Trend Information

	2004	2003	2002
Annual pension costs (APC)	\$ 1,231,225	\$ 767,612	\$ 304,708
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 11 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 131 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its self-insured health care plan with no contribution required by the participant. Expenditures for postemployment health care benefits are recognized as the claims are incurred; during the year, this amounted to approximately \$1,305,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 12 - Joint Venture

The City is a member of the Southeastern Oakland County Resource Recovery Authority, which provides solid waste disposal services to residents and businesses of Hazel Park. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$330,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Southeastern Oakland County Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Note 13 - Contingent Liabilities

The City has been named as a defendant in multiple claims and lawsuits requesting damages of various amounts. The various proceedings have not yet progressed to the point where legal opinions can be reached as to the ultimate liabilities, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability as of June 30, 2004.

Note 14 - Commitments

In a prior fiscal period, the City and all other member communities of the Southeast Oakland County Sewage Disposal System (SOCSDS) agreed to a new National Pollutant Discharge Elimination Systems (NPDES) permit, which resulted in the settlement of a contested case hearing between the Michigan Department of Environmental Quality, Oakland County, Macomb County, the City of Detroit, and the SOCSDS communities. The issuance of the new NPDES permit requires the SOCSDS member communities, as co-permittees, to undertake improvements to the Twelve Towns Retention Treatment Facility by December 31, 2005 to expand the capacity and enhance the performance of the wastewater retention treatment facility. The estimated total cost of the project is \$130 million, with the City's estimated share approximating \$3 million. To finance the project, the SOCSDS has begun to issue debt, with each community funding their proportionate share of the debt service payments. The SOCSDS has been able to obtain grant funding and low interest (2.5 percent) State Revolving Fund money to subsidize and/or finance the improvements. As of June 30, 2004, the City has approximately \$2,511,000 in outstanding debt related to this agreement (see Note 7).

Note 15 - Management's Plans

Due to the reductions of state revenue sharing, limited property tax growth, and lower interest rates on invested balances coupled with the continued greater than inflationary increases in general liability insurance, health care insurance, and pension contributions, the City's overall financial position and economic health remain critical as of June 30, 2004. In recent fiscal years, certain one-time negative economic events and the inability of the Municipal Ice Arena to operate profitably created constraints in the City's ability to fund services provided to residents with matching revenues, thus reducing the City's financial reserves. City management, along with City Council representatives, continue to monitor the current financial situation and have implemented strategies to maintain the current financial levels until positive changes in the funding provided to municipalities throughout the state are implemented. These strategies include:

Note 15 - Management's Plans (Continued)

1. Streamlining operations to provide essential services to residents in a more productive and efficient manner
2. Reducing nonessential services provided to residents
3. Receiving benefit cost concessions from all unions representing City employees
4. Selling City property to create additional future tax base
5. Strictly curtailing most capital improvement projects and expenditures

Management believes that the actions noted above, along with other operational changes, will result in continuing financial stability. Management expects to meet its projections at the Municipal Ice Arena in the fiscal year ending June 30, 2005 and beyond to eliminate the deficit in the ice arena's net assets.

City management continues to maintain a heightened level of awareness of its overall financial position and is proactively making changes in its operations and procedures to improve its productivity, control costs, and identify alternative revenue enhancement sources.

Required Supplemental Information

City of Hazel Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 987,186	\$ 966,716	\$ 1,566,794	\$ 600,078
Resources (Inflows)				
Property taxes	4,637,300	4,637,300	4,739,015	101,715
Federal grants	-	-	13,615	13,615
State sources	2,874,100	3,232,300	2,657,624	(574,676)
Licenses and permits	441,200	441,200	623,576	182,376
Fines and forfeitures	1,320,500	1,320,500	1,521,132	200,632
Charges for services	1,703,100	1,707,000	1,589,115	(117,885)
Interest income	22,000	22,000	16,988	(5,012)
Rental income	47,000	50,500	50,625	125
Race track breakage	535,000	535,000	527,859	(7,141)
Other	335,000	345,000	281,254	(63,746)
Transfer from other funds	68,000	68,000	119,876	51,876
Transfer from component unit	110,000	110,000	110,000	-
Total resources (inflows)	12,093,200	12,468,800	12,250,679	(218,121)
Charges to Appropriations (Outflows)				
General government:				
Legislative	33,600	33,600	28,477	5,123
Judicial	1,023,500	1,016,500	980,013	36,487
Executive	244,500	278,500	266,504	11,996
Elections	36,900	26,300	17,910	8,390
Assessor	153,800	169,500	168,495	1,005
Attorney	205,500	202,400	173,703	28,697
City clerk	208,200	224,100	225,699	(1,599)
Finance	302,100	392,900	381,535	11,365
Insurance claims	1,217,000	1,374,100	1,413,481	(39,381)
Boards and commissions	6,800	6,800	4,678	2,122
Treasurer	124,800	155,800	152,270	3,530
Building and grounds maintenance	210,000	206,900	191,053	15,847
Public safety:				
Police	3,840,000	4,174,000	4,228,377	(54,377)
Fire	2,022,500	2,177,500	2,160,174	17,326
Public works:				
Department of Public Service	794,400	644,400	631,205	13,195
Street lighting	273,000	273,000	252,860	20,140
Motor pool	292,800	254,400	253,824	576
Social services:				
Senior citizens program	62,800	62,800	50,437	12,363
Animal control	77,300	77,300	81,704	(4,404)
Youth assistance	800	800	87	713
Recreation and cultural	288,000	258,000	264,518	(6,518)
Planning:				
Planning Commission	10,700	4,700	4,193	507
Planning, building, and community development	466,500	393,900	401,335	(7,435)
Zoning Board of Appeals	1,100	1,100	585	515
Transfers to other funds	196,600	196,600	319,991	(123,391)
Total charges to appropriations (outflows)	12,093,200	12,605,900	12,653,108	(47,208)
Fund Balance - End of year	\$ 987,186	\$ 829,616	\$ 1,164,365	\$ 334,749

City of Hazel Park, Michigan

Required Supplemental Information Pension System Schedules of Funding Progress and Employer Contributions June 30, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
Employees' Retirement System						
06/30/98	\$ 42,503,179	\$ 36,724,618	\$ (5,778,561)	115.7	\$ 4,263,235	-
06/30/99	46,213,080	37,991,603	(8,221,477)	121.6	5,157,667	-
06/30/00 *	47,034,261	39,416,297	(7,617,964)	119.3	5,332,397	-
06/30/01 *	46,299,739	41,616,616	(4,683,123)	111.3	5,521,726	-
06/30/02 **	44,403,998	43,280,461	(1,123,537)	102.6	5,886,041	-
06/30/03 **	41,641,839	46,472,191	4,830,352	89.6	6,259,762	77.2

* Plan amended

** Revised actuarial assumptions and/or methods

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
06/30/99	\$ 1,284,884	100.00	\$ -
06/30/00	804,080	100.00	-
06/30/01	-	100.00	-
06/30/02	304,708	100.00	-
06/30/03	767,612	100.00	-
06/30/04	1,231,225	100.00	-

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2003, the latest actuarial valuation date, follows:

Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	4.25%-8.05%
*Includes inflation at	4.25%
Cost of living adjustments	None

Other Supplemental Information

City of Hazel Park, Michigan

	Special Revenue					
	Major Streets	Local Streets	Garbage and Rubbish Collection	Police Training	Community Development Block Grant	Drug Law Enforcement
Assets						
Cash and investments	\$ -	\$ -	\$ 199,259	\$ 20,556	\$ -	\$ 378,553
Receivables	-	5,625	7,551	-	-	-
Due from other governmental units	<u>133,119</u>	<u>51,601</u>	<u>93,125</u>	<u>-</u>	<u>45,589</u>	<u>9,013</u>
Total assets	<u>\$ 133,119</u>	<u>\$ 57,226</u>	<u>\$ 299,935</u>	<u>\$ 20,556</u>	<u>\$ 45,589</u>	<u>\$ 387,566</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 5,962	\$ -	\$ 75,407	\$ -	\$ 3,003	\$ -
Accrued and other liabilities	-	-	28,434	-	-	-
Due to other funds	81,351	57,226	-	-	42,586	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,556</u>	<u>-</u>	<u>-</u>
Total liabilities	87,313	57,226	103,841	20,556	45,589	-
Fund Balances - Unreserved -						
Undesignated	<u>45,806</u>	<u>-</u>	<u>196,094</u>	<u>-</u>	<u>-</u>	<u>387,566</u>
Total liabilities and fund balances	<u>\$ 133,119</u>	<u>\$ 57,226</u>	<u>\$ 299,935</u>	<u>\$ 20,556</u>	<u>\$ 45,589</u>	<u>\$ 387,566</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Funds

Cable Public Information	Auto Theft Prevention	Capital	Local Law Enforcement Block Grant	PA 495 Fire Insurance Fund	9-11 Police Training Fund	Total Nonmajor Governmental Funds
		Improvement and Replacement				
\$ 29,928	\$ -	\$ -	\$ 25,533	\$ 18,033	\$ 6,244	\$ 678,106
17,232	-	80,341	-	-	-	110,749
-	2,144	-	-	-	-	334,591
\$ 47,160	\$ 2,144	\$ 80,341	\$ 25,533	\$ 18,033	\$ 6,244	\$ 1,123,446
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 84,372
-	-	-	-	18,033	-	46,467
-	2,144	80,341	-	-	-	263,648
5,000	-	-	25,533	-	6,244	57,333
5,000	2,144	80,341	25,533	18,033	6,244	451,820
42,160	-	-	-	-	-	671,626
\$ 47,160	\$ 2,144	\$ 80,341	\$ 25,533	\$ 18,033	\$ 6,244	\$ 1,123,446

City of Hazel Park, Michigan

	Special Revenue					
	Major Streets	Local Streets	Garbage and Rubbish Collection	Police Training	Community Development Block Grant	Drug Law Enforcement
Revenue						
Property taxes	\$ -	\$ -	\$ 671,875	\$ -	\$ -	\$ -
Federal grants	-	-	-	-	248,842	-
State-shared revenues and grants	783,806	350,169	-	4,491	-	-
Race track breakage	-	-	-	-	-	-
Charges for services	-	-	448,986	-	-	-
Interest and rentals	15	-	3,701	-	-	2,756
Other	-	-	-	-	-	42,120
Total revenue	783,821	350,169	1,124,562	4,491	248,842	44,876
Expenditures						
Current:						
General government	2,200	3,708	-	-	524	-
Public safety	-	-	-	4,491	-	1,457
Public works	281,080	392,479	1,040,656	-	248,318	-
Capital outlay	-	-	-	-	-	5,090
Debt service	328,841	-	-	-	-	-
Total expenditures	612,121	396,187	1,040,656	4,491	248,842	6,547
Excess of Revenue Over (Under)						
Expenditures	171,700	(46,018)	83,906	-	-	38,329
Other Financing Sources (Uses)						
Transfers in	-	125,894	-	-	-	-
Transfers out	(125,894)	(79,876)	-	-	-	(20,000)
Total other financing sources (uses)	(125,894)	46,018	-	-	-	(20,000)
Net Change in Fund Balances	45,806	-	83,906	-	-	18,329
Fund Balances - Beginning of year	-	-	112,188	-	-	369,237
Fund Balances - End of year	<u>\$ 45,806</u>	<u>\$ -</u>	<u>\$ 196,094</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 387,566</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

Funds

Cable Public Information	Auto Theft Prevention	Capital Improvement and Replacement	Local Law Enforcement Block Grant	PA 495 Fire Insurance Fund	9-11 Police Training Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 671,875
-	-	-	16,771	-	-	265,613
-	63,908	-	-	-	4,392	1,206,766
-	-	78,876	-	-	-	78,876
-	-	-	-	-	-	448,986
-	-	-	110	-	-	6,582
<u>68,431</u>	<u>-</u>	<u>76,087</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>186,638</u>
68,431	63,908	154,963	16,881	-	4,392	2,865,336
-	-	-	-	-	-	6,432
-	81,567	-	10,682	-	4,392	102,589
6,573	-	-	-	-	-	1,969,106
-	-	31,109	10,176	-	-	46,375
-	-	319,429	-	-	-	648,270
<u>6,573</u>	<u>81,567</u>	<u>350,538</u>	<u>20,858</u>	<u>-</u>	<u>4,392</u>	<u>2,772,772</u>
61,858	(17,659)	(195,575)	(3,977)	-	-	92,564
-	26,889	195,575	3,977	-	-	352,335
<u>(40,000)</u>	<u>(6,100)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(271,870)</u>
<u>(40,000)</u>	<u>20,789</u>	<u>195,575</u>	<u>3,977</u>	<u>-</u>	<u>-</u>	<u>80,465</u>
21,858	3,130	-	-	-	-	173,029
20,302	(3,130)	-	-	-	-	498,597
<u>\$ 42,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 671,626</u>

City of Hazel Park, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Agency Funds June 30, 2004

	Current Tax Collection	Agency	Totals
Assets			
Cash	\$ -	\$ 119,809	\$ 119,809
Due from other governmental units	15,252	-	15,252
Total assets	<u>\$ 15,252</u>	<u>\$ 119,809</u>	<u>\$ 135,061</u>
Liabilities			
Accrued and other liabilities	\$ 2,712	\$ 119,809	\$ 122,521
Due to other governmental units	12,540	-	12,540
Total liabilities	<u>\$ 15,252</u>	<u>\$ 119,809</u>	<u>\$ 135,061</u>

November 1, 2004

Honorable Mayor and
Members of the City Council
City of Hazel Park
111 East Nine Mile Road
Hazel Park, MI 48030

Dear Mayor and Council Members:

We have recently completed our audit of the City of Hazel Park for the year ended June 30, 2004. In addition to the report on these statements, we offer the following comments and recommendations for your consideration.

OVERALL CITY FINANCIAL POSITION

As City Council and City management are aware, the City's overall financial position and economic health has continued to decline during the fiscal year ended June 30, 2004. With many of the City's primary revenue sources restricted or declining (e.g. Proposal A limit on property taxes, forecasted state shared revenue reductions, race track breakage monies, minimal or negative investment returns, and charges for services restrictions, etc.) while certain expenditures (e.g. employee healthcare, retirement benefits, etc.) continue to escalate with double digit percentage increases, the City continues to be in the midst of a serious financial challenge. The City's total Governmental Funds fund balance decreased from \$2,065,000 at June 30, 2003 to \$1,836,000 at June 30, 2004, of which almost \$450,000 is either not available or restricted in its use. The Municipal Ice Arena needed a contribution from the City's General Fund of approximately \$120,000 to break even for the year. While this contribution is significantly less than prior years, the arena continues to use general fund resources to continue operations. City management again needs to critically review its budgeted Fund balance positions and cash flow availability to evaluate the likelihood (based on facts known to date) of meeting initial budgeted targets established. This analysis should include a detailed assessment of the anticipated cash flow needs of the Municipal Ice Arena as well as a critical review of the primary revenue sources (e.g. taxes, state shared revenue, race track breakage, permit fees and court fines) and expenditures (e.g. labor costs including expected pension and healthcare obligations) including the level of citizen services planned versus what can be afforded. City management has indicated that this financial review is an ongoing and continuous process. A timely and thorough analysis of city finances for the next 6 months and following fiscal year is critical in identifying opportunities to improve revenues, reduce costs and create cash flow resources for the City to meet its financial obligations as they become due.

CASH AND INVESTMENTS

As mentioned in previous years, the City's investment policy states that a written report that summarizes investment activity, results, and holdings be annually submitted to the governing body (City Council) in accordance with Public Act 196 of 1997. City management should coordinate preparation, review and submission of these reports on a timely basis in order to comply with established policies and procedures. In addition, the City should also consider reviewing (at least annually) the established investment policy to determine if it is consistent with the City's current investment goals and needs.

DOWNTOWN DEVELOPMENT AUTHORITY

As mentioned in previous communications to the City Council, the City's Downtown Development Authority (DDA) has completed several projects which have enhanced and added value to the City. Due to the ongoing resources and investment commitment to this entity, the City should annually review the overall future plan of the district. This review must include an accurate projection of anticipated future expenditures including debt service commitments, estimated future revenue produced by existing tax captures, and analyzing other possible revenue sources that may be available to fund future projects. This review most likely requires the assistance of the City's attorneys to interpret the availability of other funds including captures within the DDA.

Keep in mind the DDA may only capture school related millages to the extent they qualify as eligible obligations in 1994. In addition, any excess captures that occur must be refunded to the proper taxing unit. The DDA currently has a liability recorded for certain excess captures and is currently reviewing them for accuracy and city management has indicated that the liability has been paid off subsequent to year end.

ADMINISTRATIVE AND INTERFUND CHARGES

The General Fund continues to charge various Funds for administration and other services provided to these funds. We recommend that the City annually review the interfund charges to determine if these charges should be continued and, if so, that they are commensurate with the ongoing cost of administering these funds. In addition, although the charges appear reasonable, we recommend that formal documentation be maintained in support of these charges.

BUDGETING AND CASH FLOW REQUIREMENTS

As mentioned in several prior council letters and in consideration of the City's strained financial position and the current negative economic business climate, the City must develop a three-to-five year operating plan and financial forecast that would include alternative scenarios the City could expect to encounter. The following are examples of different situations that will arise:

- Expected changes in employee work force (contract expirations, renegotiations, attrition, etc.)
- The declining level of state shared revenue received
- The expected levels of targeted capital and infrastructure expenditures including future debt service requirements
- The restricted growth of future property tax revenues
- Ability to provide future services consistent with today's level

In light of your capital investments within the City, including future debt service commitments related to the road and infrastructure reconstruction programs and the construction and operations of a municipal ice arena complex, the development of an operating plan and cash flow forecast is imperative. By preparing plans under different scenarios, the City would be better equipped to respond to expected and unexpected short-term and long-term financial constraints.

WATER AND SEWER FUND MATTERS

Account Reconciliation

As mentioned in previous years, the Water and Sewer Fund customer receivables sub ledger should be reconciled to the general ledger on a monthly basis. Timely reconciliation of the customer receivables sub ledger is fundamental to a strong system of internal control and will allow for prompt resolution of identified billing, recording or collection issues.

Water and Sewer Rate Structure

The City's current policy regarding annual adjustments to the Water & Sewer Rate charged to customers is to pass along increases from the City of Detroit and Wayne County for water purchases and sewage disposal. The City should consider revisiting this policy as these percentage increases may not be consistent with the cost of operating the remainder of the department. The Water and Sewer Fund had an operating loss of \$215,000 and net loss of \$345,000 for the year. We recommend the rate structure be reviewed on annual basis to ensure compliance with all federal and state regulations, as well as, ensuring the revenues will cover the cost of operating the department.

DELINQUENT PERSONAL PROPERTY TAXES

The City does not currently record delinquent personal property tax receivables on the general ledger or a related reserve for any amounts that would deem to be uncollectible. The City should consider recording these receivables in order to quantify potential dollars to be received by the City in future years.

COMPUTER SECURITY SYSTEM REVIEW

As governmental agencies implement technology and become increasingly reliant on the information produced by this cost saving tool, security is becoming paramount. We strongly believe the City should consider an independent security review of the information technology systems that support the operation of the City. An Information Technology Security Review would consider data, network and password security for all desktop workstations, as well as central servers. Further, the review would consider back-up and contingency and disaster recovery plans to ensure that the critical information contained at the City is sufficiently safeguarded. An independent review of the information technology environment would provide the City Council a tool by which to develop a plan for improvement opportunities and a means to enhance the security of information maintained on the public's behalf.

RETIREMENT SYSTEM

As you are aware, the City's contribution to the retirement system was not made prior to June 30, 2004. City Management had indicated they were awaiting the required contribution calculation to be recalculated by the actuary as a result in changes in assumptions which had not been communicated to the actuary prior to completion of the original actuary report. Management has indicated the full contribution has been made at the writing of this letter. The City should consider requesting from the actuary that the required contributions are calculated one year in advance. This would give the City the ability to budget confidently the amount of required City contributions twelve months in advance of the contribution due date versus receiving the amount two months prior to the City's year end.

CHARGES FOR SERVICES

With many of the City's prime revenue sources limited due to enacted laws and/or State legislative control, it is once again recommended that the City review its current rate structure utilized in charging for services, licenses, permits and other fees. Due to the annual increased costs associated with providing these services, we recommend that these charges be periodically reviewed for market and cost competitiveness. In determining the appropriateness of fees, both the direct costs associated with providing the service along with the amount charged by neighboring communities for similar services, should be considered.

STATE SHARED REVENUE

State shared revenue accounts for approximately 24% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing. Instead, beginning in 2005, the counties will change their property tax levy date for their operating millage from December to July. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

We will continue to update the City as developments occur.

TRANSPORTATION MATTERS

The Legislature recently approved HB 5319 which would earmark one-half of one cent of the state gasoline tax for the preservation, improvement or reconstruction of existing bridges. It is estimated that over the next 10 years that approximately a half billion dollars will be available to local governments for bridge needs. Presently, these monies are used primarily by the Michigan Department of Transportation for State bridges. The legislation creates a Local Bridge Authority to manage the monies as well seven, five member, regional bridge councils. The new Authority would consist of six voting members appointed by the State Transportation Commission (three nominations by the

TRANSPORTATION MATTERS (continued)

County Road Association of Michigan and three by the Michigan Municipal League) and two non-voting members nominated by the Department of Transportation.

Also, HB 4358 has been introduced which changes vehicle weight restrictions on Michigan roads for certain trucks (without regard to existing limitations imposed by local governments) and could reduce overweight truck fines.

REFUSE DISPOSAL

SB 721 was introduced which would assess a \$3 per ton tipping fee at landfills which could increase the cost of refuse disposal for local governments. The monies generated from this legislation are intended to be used by the State for recycling.

PERSONAL PROPERTY TAX

As you are aware, the State Tax Commission approved, several years ago, new personal property tax tables for utilities. The new tables made drastic changes to the valuation of transmission and distribution property of utilities.

General estimates are that use of the new utility tables result in approximately a 30% revenue loss on those properties. The City, like many other communities, has elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables. This issue was the subject of several lawsuits brought by various units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. The State is currently in the process of determining how refunds will be made on appeals filed by the utilities pending the final resolution of this matter. We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

PROPERTY ASSESSMENT CAP

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The 2004 inflation factor is being used for property taxes levied in the City's fiscal year ended June 30, 2005. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

HEALTH CARE COSTS

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to control its health care costs.

MUNICIPAL FINANCE ACT REVISIONS

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's fiscal year end June 30, 2004 and is good for one year thereafter. The City should consider the need to file a qualifying statement for the Downtown Development Authority as well.

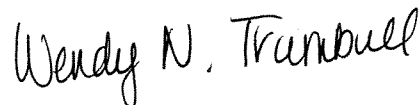
We would like to thank the Mayor and City Council for the opportunity to serve as auditors for the City. We would like to thank the City Manager, the Finance Director and the finance department staff for the cooperation, and assistance they provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



David H. Helisek



Wendy N. Trumbull